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The Common Market and The United States—A Dialogue of Continents

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THE COMMON MARKET AND THE UNITED STATES–

A DIALOGUE OF CONTINENTS

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by

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> An Atlantic trading partnership is neither a conception of pure idealism nor, as certain Europeans have suggested, a sublimated form of American economic oligarchy. It is a necessity of the first priority for both Europe and America.
>
> Senator Fulbright

In the course of the seven years since its establishment, the European Economic Community (Common Market) has accumulated so much experience and has tackled so many problems that to deal with them in one single lecture or article is well-nigh impossible. The fact, however, that many of the topics in question carry with them noteworthy implications for the United States, makes such a task challenging.

The Common Market, made up of France, West Germany, Italy, and the three Benelux countries, has been evaluated in a number of ways. Some contend that it is comparable to the opening of the American frontier. Others see in it the world's new (third) economic giant. And still others emphasize that the Common Market indicates the direction in which the world is about to move through cooperative schemes and integration projects. In this presentation, I have chosen to appraise the EEC from the point of view of the integration projects because its primary historical achievement is that it has greatly advanced the idea and technique of economic integration and has shown—along with its predecessor, the Schuman Plan —that supranational organizations are possible and viable. In other parts of the world one has already drawn due lessons from this achievement.

Since its establishment in 1957, the EEC has become a historical landmark ending in Western Europe the period of narrow nationalism and economic particularism. The fact alone that more than 60 nations have diplomatic representatives in Brussels leaves little doubt that the outside world regards the Common Market as an entity with a personality of its own, capable of bringing to fruition a new international organization of tremendous economic, political, and legal significance.

The world at large is now accustomed to dealing with the Community rather than with its constituent states or governments. The EEC has, in fact, already negotiated and concluded trade agreements with nonmember nations. The important role which it has assumed in international economics and politics comes also to the fore when the world business community and governments seek to learn about the Community's position on some international issues and problems. It is undeniable that these external attitudes to the EEC have caused its member nations to act in a distinct 'Community' or 'European' manner which has not failed to increase the region's cohesion.

In the simplest terms, the Common Market has been welding together the six states and their industries into a customs union. During the integration process many unavoidable frictions and tensions have already been overcome and settled, which fact is to be considered at least as significant as EEC's numerous tangible accomplishments. In the words of its President, Professor Hallstein, the Community tackles 'one basic problem of infinite size and difficulty . . . namely, to replace one political prejudice that has for centuries past swayed human beings in Europe . . . by a better attitude, a European attitude . . .. This means breaking with deeply rooted habits of thought, feeling and action.'

This process of abandonment of traditional views and behavior has taken place by means of a new, gradually evolving legal order whose nature and instrumentalities are determined by the *economics* of West European integration schemes, and by the voluntary cooperation to which the six EEC member nations have subscribed. Through incessant, every-day practices of governments and businessmen, and through the work of the Community's own 200 standing committees, vigorous life is being breathed into the Treaty of Rome.

It is of utmost importance for all concerned that the Community has always found it possible to restore the constantly disturbed balance of national interests in such a way that each member country's individual interest in the Community has been maintained.

No doubt, each of the six nations considers it 'good business' to belong to the Community. What are the centripetal forces that account for these countries' allegiance to a supranational organization?

As regards West Germany, she exports some 15 per cent, and imports 14 per cent, of her gross national product. Thirty-seven per cent of the former, and 33 per cent of the latter, represent transactions with the Community. Between 1958 and 1963, the share of the EEC area in West German exports increased from 27 per cent to 37 per cent. To West German exporters the Community means, among other things, freedom from the uncertainties attendant on world trade.

France's benefit from Common Market membership is twofold: Before the EEC was inaugurated, there was some danger that, due to traditional protectionist foreign trade policy, the country would not take part in the postwar European economic expansion. The French are now certain that cooperation with their neighbors in accordance with liberal trading principles minimized the above mentioned danger. Moreover, social unrest among French agricultural producers could be contained only by expanding the market for their produce. The Common Market has also helped to solve this French problem.

Italy has been attracted to the Community for two reasons: the Common Market area offers many employment opportunities to the country's unemployed, and is capable of supplying to Italy some needed developmental capital.

Belgium used to rely on two of its industries, mining and textiles, which since World War II have encountered difficulties in many other countries as well. A relief and an expectation of expansion were provided by the West European market, which has also assisted Belgium in recouping some losses suffered when its colonial possessions became independent.

The Netherlands was induced to join the Community by a new opportunity to industrialize the hinterland of its large ports, and by the prospect of attracting new business for its shipping companies. Then, too, the Netherlands needs wider market for its agricultural output.

No attempt to appraise the contribution made by the Common Market to West European economic growth should forget mentioning its liberalistic roots and the stimulus provided by the United States to the region's economic cohesion. If it had not been for this stimulus—embodied chiefly in the Organization for European Economic Cooperation—and some American pressure to bring the West European nations closer together, the Common Market would hardly have come about.

Neither should one overlook the fact that the Common Market is in a sense an offspring of the Schuman Plan (European Coal and Steel Community) whose operation during the first five years of its existence (1953-57) prior to EEC's foundation held out considerable hope for a successful expansion of intra-European cooperation. (The ECSC, concerned with specific commodities, had embarked upon vertical integration, whereas the Common Market represents horizontal integration.)

From the very beginning of West European economic integration, the principal (noneconomic) purpose of the underlying endeavor was to end the traditional rivalry and conflict between France and Germany. The intricate, economic cooperation which has evolved since the 1950's between these two nations is therefore an impressive witness to the Community's harmonizing influence. And the optimists among us foresee, I am certain, still further progress in economic (and political) rapprochment between Paris and Bonn.

The second objective of the Common Market was to restore Western Europe to a greater importance in global economics and politics. While its third and fourth purposes center, respectively, on raising the regional standard of living and eliminating international trade barriers, its last purpose—from our point of view—is to encourage large-scale production so as to realize lower costs. Furthermore, most West European integrationists expect the EEC to create an institutional framework for the future United States of Europe although the Rome Treaty, constituting the Community, says nothing about *political* integration of the six. To various degrees, all policies pursued by the Common Market have reflected these several goals.

The role which the six West European nations play in world production and trade is being enhanced by EEC's 'associated areas' consisting of 18 African countries that used to belong to the former colonial empires of France, Belgium, and Italy. Substantial present—and still greater future—mutual benefit can be derived from participation of these areas in West European integration projects since the African countries are, on the one hand, suppliers to metropolitan producers of certain basic raw materials and foodstuffs, and, on the other hand, dependable buyers of European manufactures. In 1963, the Community imported from the associated areas $988 million worth of goods and sold to them $726 million worth of goods. Both sides have treated this trade preferentially which has unquestionably increased its stabilizing effect on particularly the raw-material-producing African states. These have favored Common Market capital investment (made to some extent through the European Development Fund and the European Investment Bank) and have extended the respective liberalizing measures also to American subsidiaries located in the EEC.

The Community as a customs union has been implemented by three distinct policies, namely, (1) by gradual reduction of intra-Community trade barriers (originally scheduled to take place within a 12-year period, but shortened twice in recent years, i.e., in 1960 and 1962);[1] (2) by the establishment by December 1969 of a common external tariff; and (3) by liberalization of resource (labor, capital, business enterprise) movements within the Community. Encouraged in this way, intra-Community trade rose during the period 1958-63 by 166 per cent, trade with nonmember countries by nearly 50 per cent, while world trade as a whole had increased by only 46 per cent.

Additional economic policies adopted by the Common Market have taken it beyond the form of a customs union and have, in fact, been in some degree responsible for the split of Western Europe into the 'inner Six' and the 'outer Seven' (EFTA). These separate or independent policies concern, among others, agriculture, transport, and labor. Although the issues involved in trade with agricultural produce have become widely known—especially after EEC's policies got into conflict with United States export

[1]At the present time, customs duties on trade in industrial products within the EEC area are at 30%, and in agricultural goods at 45-50%, of the base level of 1957. Some favor abolition of all internal duties by the end of 1966.

TABLE I

COMMON MARKET 1963 TRADE RELATIONS

A. IMPORTS BY AREA OF ORIGIN					
	TOTAL IMPORTS	EEC	EFTA	USA	REST OF WORLD
GERMANY	100%	33.4	18.4	15.3	33.0
FRANCE	100%	35.8	12.1	10.3	41.8
ITALY	100%	32.8	15.5	13.6	38.0
NETHERLANDS	100%	51.6	13.8	10.9	23.6
BELGIUM-LUX.	100%	52.6	13.9	9.2	24.2
COMMUNITY	100%	38.9	15.3	12.5	33.3

B. EXPORTS BY AREA OF DESTINATION					
GERMANY	100%	37.3	27.1	7.2	28.4
FRANCE	100%	38.2	16.2	5.2	40.3
ITALY	100%	35.5	18.9	9.4	36.1
NETHERLANDS	100%	53.3	20.9	4.1	21.7
BELGIUM-LUX.	100%	60.8	14.0	8.5	16.7
COMMUNITY	100%	42.4	21.1	6.8	29.6

interests–I would like to comment briefly on those few aspects of Continental agricultural production which usually are not stressed adequately.

There are two sets of countries in the Common Market: those with agricultural surpluses (France and the Netherlands), and those which depend heavily on imports, such as West Germany. It stands to reason that under these conditions what is good for the goose is not good for the gander. Further, European agriculture is heavily protected and governmentally subsidized because there are too many peasants and farmers, a significant proportion of whom are marginal. To add to the problem, about one fourth of the Common Market population depends for its livelihood on this line of production. The West European agricultural sector is, by and large, economically inflexible, and therefore vulnerable to external changes. In a general way, the agricultural problem is considerably magnified by national differences in productivity and consumption habits.

The degree of West European and EEC's dependence on imports from the United States is suggested by our agricultural exports which exceed one billion dollars per year and of which the principal components are feed grain, fats and oils, cotton, tobacco, and wheat. (Total U.S. exports to the Common Market amounted to $3.9 billion in 1963.)

One commodity whose production in the Common Market (particularly in West Germany) has in recent years proved usually adjustable–indeed, exceptionally dynamic–is poultry. We owe to it the so-called 'chicken war' which resulted, on the one hand, from EEC-authorized, higher import duties on American poultry (from 5¢ per pound to 13¢ per pound) and, on the other hand, from larger Continental (West German) output.

What we sometimes fail to appreciate in Common Market agricultural policies is that they are aimed at a rational solution of the region's existing problems.[2] These countries seek to equalize agricultural prices in order to encourage specialization and mechanization, with the expectation that marginal producers, unable to operate under the new circumstances of more intensive competition, will discontinue production. The EEC has also begun

[2]EEC agricultural policy covers now 86% of the Community's farm output.

to introduce variable import duties, more responsive to the needs of the Common Market area as a whole, and has embarked upon creation of central marketing organizations for all major commodities. Then too, can one meaningfully object to Common Market emphasis on Community preference, i.e., giving West European producers the first chance? One is tempted to answer this question negatively. Nevertheless, it is to be borne in mind that the Common Market consciously promotes a policy that stimulates high-cost agriculture and tends to reduce import demand for low-cost American farm products.

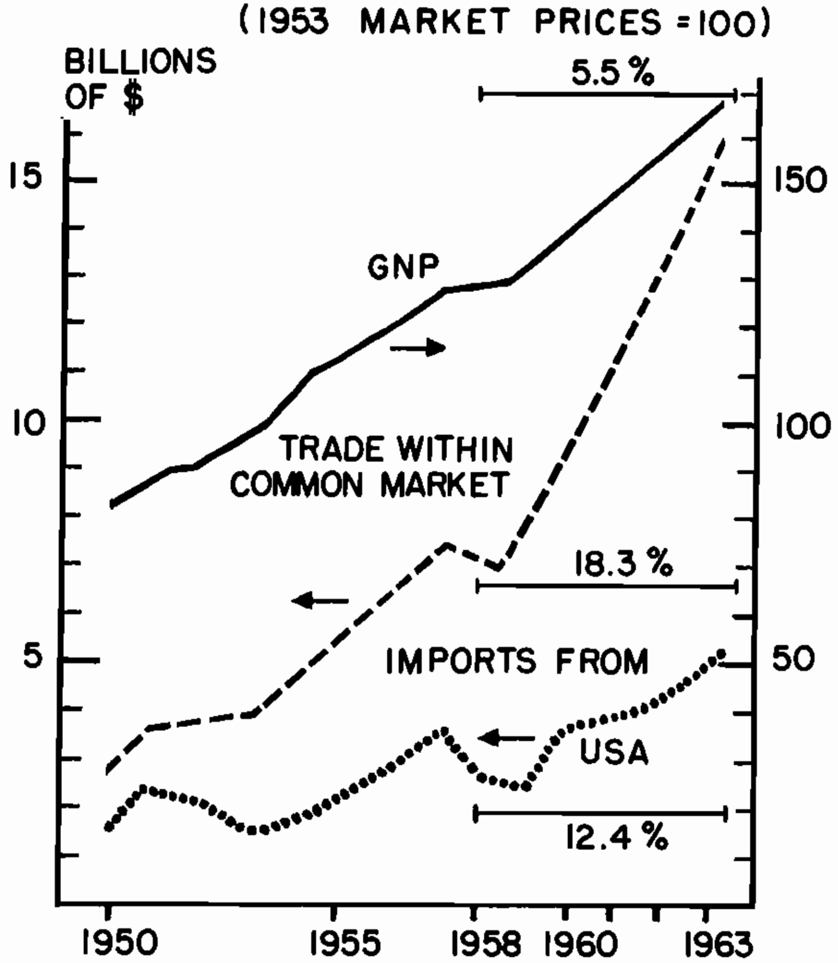
Why has the United States been so keenly interested in the Common Market, the 'inner Six,' when it is the 'outer Seven' that include some of Europe's wealthiest countries, which also have the highest incomes per capita (United Kingdom, Sweden, Switzerland)? The answer is that the first group of nations, rather than the latter, have since World War II averaged remarkable annual rates of economic growth, 5.5 per cent.[3] (U.S. growth averaged 2.9 per cent.) Moreover, the Common Market, comprising over 170 million consumers whose per capita real income has risen annually by 4 per cent over the last decade, counts among its members the two postwar economic 'miracles,' West Germany and Italy. The area has on the whole been very receptive to American investment. In the course of the five years 1958-63, 2290 (i.e., 76 per cent) of the 3070 new American operations initiated in Western Europe were undertaken in EEC countries. Among the new enterprises chemicals, machinery, metal products, foodstuffs and services (such as finance and marketing) prevailed. About half of all new U.S. investments are in partnership with European firms. I am prepared to argue that returns on these investments—which benefit primarily U.S. private corporations, but are ultimately shared by the country as a whole—represent, in a sense, yields of the funds spent in, or on behalf of, Western Europe by the European Recovery Program (Marshall Plan).

The real basis—'real' in the economic sense, in contrast to 'monetary'—of American industrial involvement on the Continent is to be found in the latter's need, sometimes perhaps hunger, for durable goods, the demand for which is actually inseparable from the economic growth pointed to above. In 1963, EEC imports

[3]Between 1958 and 1963, the Common Market's GNP rose from $165 billion to $249 billion, or by 52%. During this time the EEC index of industrial production increased from 100 (1958) to 141 while that of the U.S. and U.K. went up to 135 and 119, respectively.

CHART I

GROWTH OF E.E.C.



accounted for $40 billion or about two thirds of the all-European total. Rising expectations of booming Western Europe, as well as growing acceptance of installment buying, have instilled into its consumers desires which the American producer has excellent experience to respond to. Thus, since 1958, ownership of refrigerators has almost doubled in France and Belgium, more than doubled in West Germany, and almost trebled in Italy and the Netherlands. Similar tendencies have developed in washing machines, television sets, and automobiles. Export of U.S. *capital* to Europe, which has boosted our *commodity* export, is also predicated on local capital scarcity, and on the relatively high cost of raising new funds common to most of Europe. Of course, irresistible as West European investment opportunities have proved to be, they have contributed materially to our balance of payments deficit. One estimates that American corporations transfer to Western Europe as much as one billion dollars per year so that the total book value of new direct investment in the EEC area amounts to over $9 billion. Some firms operating in the region invest in the Common Market 3 per cent, others as much as 12 per cent, of their total capital investments. However, these proportions should not be taken as representative of the true measure of American financial commitments since some 40 per cent of the capital employed by U.S. firms comes from plowed-back earnings. (The balance corresponds to foreign funds used.)

There has never been any doubt on either side of the Atlantic that American investment has accelerated West Europe's rapid industrial recovery and growth. Nevertheless, some issues have arisen which render the boon of U.S. capital somewhat questionable. On the one hand, the latter is said to have aggravated the disequilibrium in our balance of international payments, while on the other hand, American corporations have been accused of dominating some segments of Continental industrial production.

As far as the first argument is concerned, its (American) advocates seldom emphasize the fact that U.S. investment generates substantial (and ever-increasing) return flow of capital in the form of dividends, royalties, and management fees. Thus the net balance-of-payments impact of U.S. corporate activity is relatively small (perhaps neutral), especially if one considers that a substantial portion of our direct investment consists of shipments of equipment which are recorded both as a capital outflow (debit) and as an export receipt (credit) while no funds are actually transmitted.

The alleged threat of industrial domination resulting from the operation of U.S. subsidiaries is based on a partial view of the conditions at hand. Although American investment is heavily engaged in West German production of automobiles, British manufacture of office machines and French output of biscuits, the accusation cannot be leveled at many other lines of production. An acceptable measure of the total U.S. involvement in West European industries is in the neighborhood of five per cent. In 1962, American manufacturing subsidiaries contributed about three percent to total manufacturing sales of Common Market and U.K. producers.

The economic symbiosis between the United States and the EEC nations finds its most eloquent evidence in trade. In 1963, the EEC countries purchased $3.89 billion worth of American goods and services (17 per cent of our exports) and have shipped here $2.56 billion worth of goods and services (15 per cent of our imports). Our exports to the Common Market have expanded at an impressive annual rate of about 6 per cent and have consistently given the United States a trade surplus.[4] This has unquestionably been made possible by the establishment of U.S. subsidiaries on the Continent (as well as in the United Kingdom). *Direct* shipments from our shores would certainly not have permitted the multiple increases that have taken place in the sale of automobiles, electrical machinery and chemicals--to cite a few articles supplied from West European U.S. operated plants. It is only logical to conclude that American industrial expansion in the Community countries has made a dent into local production which clearly has not pleased some Europeans. On the other hand, U.S. subsidiaries have significantly contributed to the exports (some 20 per cent in manufacturing) of their European host countries. In addition, the later's productive system has been strengthened by its sharing of the results of the heavy expenditures assigned by U.S. corporations to research and development.

Even as sketchy an appraisal of United States-EEC trade relations as this, calls for acknowledgement of a trend now in progress, however unfavorable it is to American economic

[4]Almost inevitable counterpart of EEC's prosperity has been its balance-of-trade deficits which totaled $1.6 billion in 1962 and $2.8 billion in 1963. From among the six countries only West Germany has continued to show surpluses ($984 million in 1962 and $1.6 billion in 1963). This development has not hindered the Community nations' accumulation of international reserves (gold and convertible currencies) the total of which increased by 35% (from $11.8 billion to $18.3 billion) between 1958 and 1963.

interests in Europe: the volume of trade between the Community nations has been rising not only due to gradual reduction of internal tariffs, but also as a consequence of a higher degree of regional protection following the institution of new common external tariff duties. In many instances this tariff affords to the low-cost suppliers within the Common Market greater protection than they have been used to enjoy. Quite naturally, effective competition of these producers vis-à-vis the American exporter has risen. To what extent (1) the future growth of purchasing power and (2) local inflationary pressures within the Common Market will offset the aforementioned internal and external tariff adjustments, remains to be seen. Outsiders, including Americans, who feel injured by EEC's discrimination against themselves and advocate, therefore, a tariff disarmament, pin their hopes on tariff negotiations taking place under the GATT and the Kennedy Round.

But in this connection, too, serious difficulties have been encountered. As regards the United States, it has a wider range of tariff rates than the EEC. At the present time 80 per cent of Common Market tariff rates lie in the range from 5 to 25 per cent; only 59 per cent of American tariffs are found in this range. Analogous proportions for the 0-5 per cent range are: EEC, 16 per cent; USA, 27 per cent. Moreover the United States proposes to cut all tariffs by about the same percentage (across-the-board) while the Common Market seeks larger reductions of very high tariffs with the ultimate target of an overall tariff wall of approximately 10 per cent for most products. Doubtless, agreements reached in these and other respects would improve both our trade relations with the EEC nations and our balance of payments position.

As soon as the tariff question is settled and the 'tariff frontier' is abolished, there will be time to prepare for conditions in which competition between individual entrepreneurs rather than between the economies of the Common Market countries will govern regional distribution of resources and trade relations, including those with the United States. Then the pressure to deal with, and eliminate also the 'administrative tax' and other still untouched 'frontiers' will have to be coped with so that the EEC can face the outside world as a unit.

With view to the experience gained in connection with tariff negotiations, U.S. agricultural exports, and the issues related to American investment in the Common Market area, it is obvious that the economically mature and powerful Western Europe of the 1960's has engaged in a dramatic dialogue with its former benefactor and protector, the United States. The Common Market has emerged as America's equal not only in Europe, but also in the underdeveloped countries of the world; and not only in economics but also in international politics. This state of affairs does not disturb the Americans, rather it makes them proud, as President Johnson has implied in this statement:

> Since World War II, we have sought a Europe growing in intimacy and unity with America. If we look beyond the clamor of daily reports and the voluble doubts of skeptics, we can see that this effort has been the greatest success story in the history of the West.

BIOGRAPHIC SKETCH

Professor Karel Holbik

A native of Czechoslovakia, Professor Holbik came to the United States in 1948 upon completion of his study of law (J.D. degree) at Charles University of Prague. His original intention in coming to this country was to broaden his commercial background acquired in Czechoslovakia and Sweden with a view to becoming, upon return, a corporation lawyer.

His trip to this country was motivated by impressions and experience gained during his four-year employment with the Bata Shoe Company, where he was secretary to a former manager of Bata's sales organization in the U.S.A.

Professor Holbik attended the University of Detroit where he earned a master's degree in business administration (in 1950) while holding part-time jobs in two industrial firms. He also served as instructor in Economics at the University.

During his stay in Detroit, Professor Holbik decided to remain in the United States (following the coup d'etat in Czechoslovakia) and began to study for a Ph.D. in Economics at the University of Wisconsin which had awarded him a University Fellowship. Upon completion of his course work, he joined the Bank of America in San Francisco and continued studying at the University of California, Berkeley.

He completed his doctoral degree at Wisconsin (in 1956) while teaching Money and Banking in the Department of Economics. This period was interrupted by a trip to Europe, especially Italy, whose foreign trade was the subject of his dissertation.

In 1955, Professor Holbik accepted a teaching position at Lafayette College, Easton, Pennsylvania. During the three years of his tenure there, he spent half a year in Geneva, Switzerland, doing research with the United Nations. This stay was followed by a six-week tour around the world.

The spring of 1958 brought the offer of an appointment at Boston University which he accepted to have the advantage of the Boston area research facilities. These enabled him—among other things—to prepare for publication of a book, *Italy in International Cooperation.*

As a resnlt of both this work and contacts with Italian economists, Professor Holbik was invited in 1960 to give lectures at several Italian universities for which purpose the Italian Ministry of Foreign Affairs made a grant.

During his first two years in Boston (1958-60), Professor Holbik resumed part-time graduate work in International Legal Studies at Harvard to which his dormant interest in law induced him.

In 1961 another trip to Europe was undertaken; this time on the basis of a West German grant which enabled him to prepare a book on intra-German trade published in 1964. Recently, Professor Holbik visited the Continent again to gather material for a study of West European monetary policies.

The international nature of Professor Holbik's background is reflected in some of his personal data: he became a United States citizen in San Francisco, was married in Geneva, Switzerland, and his son was born in Boston.

Since 1963, Professor Holbik has offered a course in International Economics at the Naval War College under the auspices of The George Washington University. He is currently on leave from Boston University where he holds the position of Associate Professor of Economics.